Taxation and FDI
In Developed and Developing Countries

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Introduction

From 1980 to 2000, foreign direct investment (FDI) increased substantially in the world. According to statistics from UNCTAD, the world inward stock of FDI was $0.7 trillion in 1980, $1.95 trillion in 1990, and $6.15 trillion in 2000. Corresponding figures for the world outward stock of FDI are $0.56, $1.76, and $5.99 trillion, respectively. Developed countries are the generators of the vast majority of FDI outflows (86% of the world stock in 2000), and the receivers of the vast majority of inflows (65% of the world stock in 2000). However, the shares of developing countries, whose FDI inflows come mainly from developed countries, are increasing. The inward FDI stock of developing countries has risen from 28% of the world stock in 1990 to 33% in 2000, while their share of the world outward stock has risen from 7% to 13% during this period.

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Table 1 shows that along with an increase in the world share of FDI stock, developing countries have seen a greater real per-capita GDP growth rate than developed countries from 1990 to 2000, in line with economic theory which predicts that capital accumulation is important for growth. The real per-capita GDP growth rate in developing countries was 2.9% from 1990 to 2001, while that for developed countries was 1.7%. However, in spite of their increasing share of FDI and higher real per-capita growth rate, developing countries' corporate tax revenues have fallen as a share of GDP. Keen and Simone (2004) report that developing country corporate tax revenues as a percent of GDP fell from 2.9% in 1992 to 2.3% in 2001. This was partly due to a reduction in statutory tax rates in developing as well as developed countries. Yet developed countries were able to increase their corporate tax revenue as a percent of GDP from 1.9% in 1992 to 2.5% in 2001.

In this paper, we first look at an overview of FDI, noting certain differences between developed and developing countries, differences in the composition of FDI within a country, and differences in the geographic origin of inward FDI. We also note differences in FDI incentives between developing and developed countries. We then turn to a discussion of the complicated ways in which FDI incentives can be affected by the international tax systems of both home and host countries. Incentives affecting investment decisions are treated first, followed by a discussion of income shifting incentives. We conclude by summarizing the challenges that lie ahead.

FDI in Developed and Developing Countries

Table 2 lists the 10 largest developing and developed host economies for FDI for 2001, and their inward FDI flows between 1997 and 2001. Among developing economies, China, Mexico, and Brazil had the largest inward flows, while among developed countries, the US, the UK, France, and Belgium and Luxembourg were the largest recipients of FDI flows. In assessing the relationship between taxation and FDI in these diverse countries, it is important to keep in mind several factors concerning FDI.

First, FDI in the service sector, and particularly in finance, has increased at a greater rate than FDI in manufacturing. According to the World Bank (2003), the world stock of inward FDI increased at an annual rate of 12.2 percent in manufacturing and

13.8 percent in services between 1988 and 1999. In developing countries, the difference in the annual increase in the composition of the inward stock of FDI was even more marked: a 19.6 annual growth rate in manufacturing versus a 28.2 percent annual growth rate in services. The potentially important role of the financial sector is evident in the data for Belgium and Luxembourg in Table 2. While obviously small countries, in 2000 Belgium and Luxembourg overtook Germany and came close to overtaking the US in total FDI inflows.

Second, the composition of FDI can differ significantly from country to country, sometimes even within regions. Brazil, for instance, has seen greater inflows in the tertiary (service) sector than the secondary (manufacturing) sector in every year from 1996 to 2002. Mexico, while having significant inflows in the tertiary sector, had higher inflows in manufacturing in every year from 1994 to 2000.

Third, FDI inflows are geographically diverse both across host countries and within a given host country. Hence, host countries need to keep in mind different home country tax systems when evaluating the effects of tax policy. For instance, the bulk of FDI inflows into Mexico come from the United States. While the US is also a significant provider of FDI in Brazil, a large part of FDI inflows in Brazil have come from Western Europe. Moreover, the geographic origin of flows into Brazil have changed significantly during the 1990's, with Spain, France, and the Netherlands currently the largest investors from Western Europe.

Fourth, developing countries are usually characterized by greater FDI inflows than outflows, while developed economies' inflows and outflows tend to be closer, with FDI outward stocks often greater than inward stocks. For instance, during the period 1985-1995, developed economies' inflows average \$127.5 billion annually, while annual outflows averaged \$181.7 billion. During this same period, developing economies' inflows averaged \$50.1 billion annually and outflows averaged \$21.5 billion. In 2000, China's inflows were \$40.8 billion while outflows were only \$0.9 billion. In some sense, then, the challenges facing developing and developed economies are different.

Fifth, it is important to recognize at the outset that taxes usually are not the most important factor in attracting FDI, although they can have marginal impacts. A number of studies have shown that an attractive investment climate including factors such as the rule of law and low levels of corruption, good infrastructure, agglomeration economies, as well as geographic proximity, are the most important factors at work. Moreover, the reputation of a country is important. Are a country's policies likely to be time consistent – that is, will tax or other incentives granted today be honored in the future, or may a government renege on future promises, perhaps even confiscating a company's assets? Country risk is important and may be endogenously determined by government policies (Eaton and Gersovitz).[1]

Finally, it should be noted that FDI often has an uneven impact within a country. For instance, NAFTA is generally thought to have impacted Mexico unevenly, increasing incomes more along the wealthier northern border than in the poorer southern states. This can have important political ramifications as those that lose or do not gain as much will tend to be opposed to policies that might benefit the country as a whole.

Incentives Used to Attract FDI in Developing and Developed Countries

Developing and developed countries both use certain incentives to try to attract FDI, but the types and frequency of incentives used differs somewhat. Table 3 lists some of the incentives used in 71 developing versus 20 OECD countries. Tax exemption or tax holidays for FDI are used by 55% of developing countries but only 20% of OECD countries. Lower tax rates for FDI are used by 45% of developing countries but only 5% of OECD countries. Investment or re-investment allowances are used frequently by both groups, though somewhat more by developing countries. Accelerated depreciation is used by 30% of the countries in each group.

The types of incentives used more frequently by OECD countries are reduced local taxes and subsidized loans. Moran (1998) suggests that developing countries do not have the resources to be able to compete with the large subsidies offered by developed countries, and resort instead to tax holidays and the like. Shah (1995) indicates that the use of tax incentives has led to distorted investment decisions in many developing countries because of the lack of any incentive for start-ups that have losses and because of the encouragement of relatively capital intensive production methods.

[1] Volatility of FDI, sometimes taken as a measure of country risk, is higher among developing than developed countries.

The fact that reduced local taxes is a common subsidy among many OECD countries is troubling if one is convinced that more cooperation is in order. Cooperation typically takes place among national governments and some national governments, particularly the U.S., have little control over subsidies of sub-national governments.

Investment Incentives Under Different Systems of International Taxation

The first fact to recognize when thinking about taxation of FDI is that there are generally two distinct types of tax systems used by countries: territorial and worldwide tax systems. The distinction between the income taxed under these two systems is similar to the distinction between gross domestic product (GDP) and gross national product (GNP). Under territorial taxation, and similar to the definition of GDP, a country taxes all income generated within that country whether the taxed entity is foreign or domestic. In the extreme, all income generated outside of the borders of the country is not taxed, as it is deemed to be taxable where it is generated. In contrast, a worldwide system of taxation in principal taxes as well the income of a resident that is generated abroad, similar to the definition of GNP.

Countries that practice worldwide taxation often have a foreign tax credit system to relieve double taxation of foreign earned income. A credit is given for foreign taxes paid, but the credit is usually limited to the tax that would have been paid had the income been earned in the home country. This creates two types of resident taxpayers; those that receive full credit for foreign taxes paid and those that do not. The latter group is said to be in "excess credit"; if full credit is received the taxpayer is said to be in "deficit of credit" or "excess limitation."

In practice, most countries do not rely exclusively on the extremes described above. For instance, although the U.S. is known as a worldwide taxation country, it deviates from such a system in many cases. For instance, a U.S. corporation can set up an overseas operation as a controlled foreign corporation (CFC), which is incorporated in the foreign country and for which over 50% of stock is owned by U.S. shareholders. Except for certain types of income taxed currently under sub-part F, the income of a CFC is only subject to U.S. tax when it is repatriated to the U.S. Since a CFC can delay subjecting its income to U.S. tax by not repatriating income, this feature of U.S. international tax law is referred to as "deferral," a common practice among worldwide taxation countries. Yet, at least for the time that income tax is deferred, this makes the U.S. tax system much like a territorial tax system. Nevertheless, countries tend to be classified somewhat loosely as "territorial" or "worldwide" taxation countries.

Whether the U.S. tax system is a truly worldwide tax system is complicated by other features as well. For instance, deferral was weakened by the U.S. Revenue Act of 1962 which added Subpart F to the tax code. Subpart F subjects certain types of unrepatriated income of CFCs to U.S. tax currently, as if it had been repatriated as a dividend. Another complication of the U.S. worldwide tax system is that foreign operations can be set up as a branch, which is not separately incorporated. The income (or loss) of a foreign branch is combined with domestic income and taxed currently. The companies that tend to set up foreign operations as branches are concentrated in the banking and petroleum industries. (Goodspeed and Frisch, 1989)

On the other side of the coin, Germany is often thought of as a territorial country. As pointed out in Altshuler and Grubert (2001), Germany actually has a worldwide tax system with foreign tax credits. What distinguishes Germany is that dividend payments from foreign affiliates located in a country that has a tax treaty with Germany are exempt from German tax, effectively creating a territorial system for countries with which Germany has a tax treaty.

Perhaps surprisingly, there is not agreement on the theoretical incentive effects of taxes on FDI coming from tax credit countries. One point of view, laid out by Horst (1977), is that incentives are different for excess credit and deficit of credit firms. The excess credit firm faces the tax rate of the country in which it invests on the margin; the deficit of credit firm faces the tax rate of the home country no matter where it invests. In contrast, Hartman (1985) argues that deferral combined with the fact that mature firms finance investment from retained earnings that are already abroad implies that the foreign tax credit position of the multinational is irrelevant for investment decisions. In Hartman's view, deferral does not help firms that invest funds that are already abroad and must eventually be repatriated; the return on those funds must eventually absorb the home country tax. Hence, the investment rule for excess-credit and deficit of credit firms is the same: invest abroad if the after-foreign-tax return is higher than the after-domestic-tax return. The Hartman result depends on an unchanging home tax rate among other things. (Altshuler and Fulghieri,1994) Moreover, if investment from tax-credit countries comes mostly from excess credit multinationals, the magnitude of any difference in investment incentives would be small since under either view most foreign earnings would face the host country tax rate on the margin. Furthermore, any difference in investment incentives resulting from territorial versus worldwide would likewise be small in magnitude. This has also been the conclusion of a number of studies (e.g. Altshuler and Grubert, 2001 and Grubert, 2001) examining the hypothetical move towards a territorial system of taxation being contemplated by the U.S..[2]

The empirical evidence on whether tax differences influence the location of FDI is reviewed by Hines (1997), but the evidence is rather mixed. This could quite possibly be due to the fact that any difference that tax systems (worldwide versus territorial) have on FDI arises from firms that are in an excess limitation position under the worldwide system. Firms that are in an excess credit position face the host tax rate on the margin just as under the territorial system. Thus, one might expect it to be difficult to discern any difference. One paper that does find a large effect of territorial versus worldwide tax systems is Hines (1996) who examines locational patterns of inward FDI into the US states that have differing tax rates. One reason that Hines is able to discern some difference between home country tax systems is that he examines a single host country. However, his results probably should not be extended to host countries other than the US.

Incentives and the Computation of Foreign Tax Credits

One important difference in the computation of foreign tax credits is whether a per-country limitation is used. Some countries treat income earned in each foreign country separately in determining a multinational's foreign tax credit, while others determine the credit on a worldwide basis. Under the former method a per-country limitation on foreign tax credits is computed. Under the latter method, income and taxes from all countries are added to determine whether the limitation applies; thus, the

[2] The timing of dividend repatriations might be affected, though, as emphasized in Desai, Foley, and Hines (2001).

taxpayer will be in excess credit if its (weighted) average foreign tax rate is greater than the home country tax rate.[3] A multinational may be able to reduce its home country tax liability because of the averaging of high and low taxed income, a fact that is important for investment incentives as well as income shifting (discussed later). Consider, for instance, a multinational with a large proportion of income coming from investments in high tax countries and a small proportion of income coming from investments in low tax foreign countries. The multinational will not obtain full credit for foreign taxes paid; that is, it will be in an excess credit position. This firm would then have an incentive (absent under a per-country limitation) to shift income from high tax to low tax foreign countries so that the average foreign tax rate falls.

This is not to say that a per-country limitation eliminates abuse possibilities. Since different types of investments are associated with different effective tax rates, a cause for concern under the per-country limitation is that income may be shifted between income or investment types. To combat this tendency, some countries force multinational companies to make separate credit calculations for particularly high- or low-taxed types of income, sometimes called "baskets" of income. Such categories can substantially increase the compliance costs for multinationals, however.[4]

Tax Holidays and Tax Sparing as Investment Incentives

Many developing countries give multinationals “tax holidays” meaning that they pay no or little taxes for a certain number of years. Such tax breaks only provide incentives for multinationals to invest in the developing country if the multinational’s home country taxes on a source basis. For countries that tax on a worldwide basis, tax holidays provide no incentive to locate in the developing country since the income of the

[3] The extent to which countries can be classified on the basis of whether their foreign tax credit systems are per-country or worldwide is sometimes questioned. Usually, the U.S., Japan, and Iceland would be classified as providing credits on a worldwide basis, while Canada, Germany, Greece, Ireland, Italy, the Netherlands, New Zealand, Norway, Portugal, Spain, Turkey, and the United Kingdom would be classified as using a per country limit in determining the foreign tax credit. However, as Ault (1997) notes, this division is somewhat misleading. In the U.K., for instance, the per-country credit limitation can be avoided by routing income through a nonresident holding company. The income going through this “mixer” company is considered all from one source, and hence averaged and the per-country limitation avoided. Ault suggests that the use of such companies is common.

[4] For example, the expansion of baskets under TRA86 has been criticized for unduly increasing the compliance costs of multinationals.

multinational will be taxed at the home country rate. Recognizing this, some developed countries that tax on a worldwide basis allow their multinationals credit for such tax holidays; that is, they allow credit for taxes that have not actually been paid. This is often referred to as "tax sparing." Tax sparing provisions are generally written into tax treaties between the developed and developing country.

Although most countries grant tax sparing in treaties with many developing countries, the U.S. does not.[5] There is some evidence that tax sparing does influence the location of Japanese investment (Hines, 2001b). Tax sparing does not benefit start-up companies that have losses in the initial stages, however. And such innovative business ventures might be considered the real engine of economic growth. Moreover, tax sparing tends to encourage transfer pricing abuse. Even if one grants the argument that tax sparing can influence investment location, it may contribute little to growth while reducing host country corporate tax revenue.

Shifting of Corporate Residence

What determines the home country of a multinational corporation? This differs somewhat across countries, but is often triggered by where the parent is incorporated or by the place of the headquarters (regardless of incorporation) that is considered to be the place of management and control. Countries need to be concerned about whether a multinational corporation is considered resident since this determines whose tax rules apply.

Companies sometimes find it in their interest to change their place of incorporation to reduce taxes. This has been dubbed "inversion," and has been alleged to have been a factor in the Daimler-Chrysler merger. US companies have recently come under fire for attempting such re-incorporations. Stanley Works, for instance, first announced it would change its residence to Bermuda, but later reversed its decision in the face of both political and shareholder objections.

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[5] However, the U.S. has had a set of rules (contained in Section 936 of the U.S. Internal Revenue Code) that provide tax subsidies for corporations that locate in U.S. Possessions (the primary beneficiary being Puerto Rico). This subsidy is being eliminated.

Shifting of Income through Transfer Prices

Transfer prices are the prices attached to transactions that occur between the parent and subsidiary companies within a multinational, such as the sale by a subsidiary of an input that is used in the parent's production process or sale of a trademark by the parent to a subsidiary. Transfer prices are troublesome from a tax policy perspective because they can be used to evade taxes for either the territorial or the worldwide tax system. Abuses under the territorial system are perhaps the most obvious: taxes can be reduced by transferring profits out of the high-tax country and into the low-tax country. A purported advantage of the worldwide system is that this incentive disappears for a multinational that invests in a single foreign country with a tax rate lower than the home country. In this case, income derived from the foreign investment will be taxed at the home country tax rate and the incentive to shift income is eliminated. However, several complications of the tax systems of countries that use the worldwide system of taxation may induce multinationals to use transfer pricing to reduce taxes. For instance, since multinationals typically have investments in a variety of foreign countries, the way in which the credit is computed is important. As mentioned earlier, some countries aggregate income over all foreign countries in determining the limit. In addition, the use of “mixer” companies in countries that use a per-country limitation can also result in income averaging. For these countries, a multinational with a large proportion of income coming from investments in high tax countries and a small proportion of income coming from investments in low tax foreign countries will not obtain full credit for foreign taxes paid. This firm would then have an incentive to use transfer prices to shift income from high tax to low tax foreign countries and thereby obtain credit for all foreign taxes paid.

As transfer pricing can be used to evade taxes, governments have naturally developed a set of rules to try to minimize this potential source of tax evasion. The problem is to find an “objective” way of valuing tangible and intangible assets transferred across national boundaries by multinational corporations. The widely accepted international standard is that such transfers be assigned the prices that would have been charged if the transactions had occurred between independent entities. Such prices are referred to as “arm's length” prices - that a transaction between a parent and its subsidiary should be priced as if it had occurred between two unrelated parties in a competitive market. However, arm's length transfer prices are not always easy to calculate because comparable transactions by unrelated parties may not exist. This issue is pervasive for intangible assets because the value of most intangible asset arises from market power generated by the intangible.

When comparable transactions do not exist, the government often provides some guidance in the form of regulations or case law on the range of transfer prices that will be deemed acceptable. Such guidance may include a cost-plus calculation, reference to some industry average such as a rate of return on assets or a margin on sales, or attempts to adjust "inexact" comparables to obtain transfer prices. Profit-based methods (e.g. "comparable profits") as opposed to transactions methods tend to be the most controversial; some countries do not allow comparable profits methods. The U.S. Internal Revenue Service (IRS) has adopted an open approach on the methods used to obtain transfer prices. Multinational companies may now propose a method for determining transfer prices. The IRS examines the proposed method and determines whether or not the methodology is acceptable. If the methodology is acceptable, the IRS enters into an "advanced pricing agreement" (APA) with the multinational. The agreement allows the multinational to use the mutually agreed upon methodology to set transfer prices for the firm; the APA may involve the other countries impacted by the agreed transfer price. APAs are also possible in some other countries (e.g. Germany and The Netherlands).

Transfer pricing abuses are not easy to discover, however, as they are internal to the firm, and, as suggested in Grubert, Goodspeed, and Swenson (1993) there are several reasons other than transfer pricing that might explain lower than average rates of return for foreign-controlled companies. For instance, foreign-owned companies may at first experience a lower than average rate of return because of the start-up costs of a new business (or revaluation of the assets of new acquisitions), but one would expect this to change over time as the firms mature. In addition, unexpected changes in exchange rates can have a large effect on profits at any given time. Effective enforcement of transfer pricing rules requires effective tax administration.

The Role of Tax Treaties, Withholding Taxes and Information Exchange

Tax treaties are bilateral agreements that evolved from recommendations by the League of Nations in 1927. A main function of tax treaties is to reduce "withholding taxes," particularly those placed on dividends, interest, and royalties. These are taxes applied at source, usually on gross income. For instance, an Italian company issuing dividends to its British parent might owe a tax to Italy that would be withheld by the Italian government. One reason often given for withholding taxes is that income of this type might easily escape both home and host taxation. Withholding taxes on dividends can vary widely; this can create incentives to funnel dividends through a third, low withholding-tax country. (Giovannini (1989) provides an example.)

Subtleties in the Taxation of Financial Services

Given the growing importance of FDI in the services sector, particularly in finance, it is useful to consider certain subtleties of the taxation of the financial services sector. Financial services are usually taxed somewhat differently than manufacturing companies for reasons that stem from the fact that interest income is a normal course of business in banking. Hence, certain law changes that might not have much effect on the manufacturing sector could have a substantial impact on the financial services sector.

One example of this has been investigated by Altshuler and Hubbard (2001) with respect to the U.S. multinational service sector. They note that Subpart F in the U.S. was greatly broadened by TRA86 to include current taxation of active financial service income. After the law change, a U.S. multinational that does not have excess foreign tax credits would face equal taxation among locations abroad on its financial service income (i.e. it would face the U.S. tax rate on the margin in all locations) and therefore would not respond to tax differences. Using a sample of financial subsidiaries of U.S. corporations, Altshuler and Hubbard find that the location of financial subsidiary assets among foreign countries was sensitive to differential foreign tax rates in 1984, but not in 1992 or 1994. They attribute this to the essential repeal of deferral for these companies after 1986. A host country that recognizes this change and whose FDI in the service sector comes primarily from the U.S. could take advantage of this by increasing its tax rate to the U.S. rate to raise revenue.

Conclusion: Challenges that lie ahead

The incentives resulting from taxation of FDI are, a-priori, difficult to analyze and difficult to predict. This is due in part to the diversity of FDI both in terms of sectors and geographic origin for different countries, and the way that FDI changes over time independently of taxes. Host countries need to be aware of the types and origins of FDI, and their different tax treatments in the home countries to be able to design effective incentive systems. Home tax systems may themselves change over time (witness the U.S. moves toward territorial taxation), making the task even more difficult.

Developed countries may find the task feasible – some developed countries may even lead the process. But a developing country's lack of resources and expertise put it in a disadvantageous position vis-à-vis developed countries to compete using tax incentives. Even the common tax holiday incentive may just give up revenue without getting any additional investment in return to the extent that credit is given for taxes paid abroad, and a foreign tax credit computation that uses country averaging makes it quite difficult to discern the marginal impact of a tax holiday from any given country. Moreover, start-up ventures that generate losses, but are also the foundation of innovation, are disadvantaged relative to other business ventures.

The challenges for developing and developed countries would thus seem to be different. Developing countries need foreign capital, but are in a "no-win" situation with respect to attracting FDI by using tax incentives. They seem likely to lose revenue without attracting additional FDI. Developing countries will probably do better by concentrating on improving investment fundamentals rather than using the tax system as the main incentive tool.

Developed countries, on the other hand, have an advantage in using tax incentives to attract FDI. However developed countries might do better by recognizing the benefits of cooperating in certain respects. The challenges for developed countries will likely come in recognizing the increasing need for cooperation in exchange of information to deal with the increasingly important service (including financial) sector, the difficult issue of controlling transfer pricing, and money laundering. Developed countries may well need to help developing countries in monitoring and tax administration as developing countries do not have the expertise to fully monitor transactions.

Tables

Table 1: Changes in Shares of World FDI Stock, GDP, and Corporate Tax Revenue in Developed and Developing Countries

	Developing Countries	Developed Countries
% change in inward share of world FDI stock (1990 – 2000)	+16.9	-9.4
% change in outward share of world FDI stock (1990 – 2000)	+80.7	-6.9
% change in real per-capita GDP (1990 – 2001)	+2.9	+1.7
% change in corporate tax revenues as % of GDP (1992-2001)	-20.1	+31.6

Source: UNCTAD (2004) and Keen and Simone (2004).

Table 2: Top ten Foreign Direct Investment host economies in 2001 *(millions of dollars)*

Developed countries	1997	1998	1999	2000	2001
United States	103,398	174,434	283,376	300,912	124,435
United Kingdom	33,229	74,324	87,973	116,552	53,799
France	23,174	30,984	47,070	42,930	52,623
Belgium and Luxembourg	11,998	22,691	133,059	245,561	50,996
Netherlands	11,132	36,964	41,289	52,453	50,471
Germany	12,244	24,593	54,754	195,122	31,833
Canada	11,527	22,809	24,435	66,617	27,465
Spain	7,697	11,797	15,758	37,523	21,781
Italy	3,700	2,635	6,911	13,377	14,873
Sweden	10,968	19,564	60,850	23,367	12,734

Developing countries	1997	1998	1999	2000	2001
China	44,237	43,751	40,319	40,772	46,846
Mexico	14,044	11,933	12,534	14,706	24,731
Hong Kong, China	11,368	14,770	24,596	61,938	22,834
Brazil	18,993	28,856	28,578	32,779	22,457
Bermuda	2,928	5,399	9,470	10,980	9,859
Poland	4,908	6,365	7,270	9,342	8,830
Singapore	10,746	6,389	11,803	5,407	8,609
South Africa	3,817	561	1,502	888	6,653
Chile	5,219	4,638	9,221	3,674	5,508
Czech Republic	1,300	3,718	6,324	4,986	4,916

Source: UNCTAD World Investment Report 2002

Table 3: Types of FDI Incentives in OECD and Developing Countries

FDI Incentive	% OECD Countries	% Developing Countries
Capital goods import duties exempted	5	56
Tax exemption/holiday	20	55
Investment/reinvestment allowance	30	49
Lower tax rate	5	45
VAT exemption for capital goods	0	34
Accelerated depreciation	30	30
Raw material import duties exempted	5	30
VAT exemption for raw materials	5	24
Duty drawback	5	24
Export income treated preferentially	0	20
Loss write-off	0	18
Reduction in local, municipal taxes/duties	30	18
VAT exemption on exported inputs	10	18
Subsidized loans	45	18

Source: World Bank (2003) from Bora (2002).